Canada Council for the Arts | Conseil des arts du Canada

Quarterly

# Financial Report

Unaudited

Period ended June 30, 2013
Published August 30, 2013

Bringing the arts to life
De l'art plein la vie.

Canada Council for the Arts | Conseil des arts du Canada

# Management Discussion and Analysis

Quartely Report

Period ended June 30, 2013
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Bringing the arts to life
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## INTRODUCTION

This narrative discussion relates to the financial results of the Canada Council for the Arts (the Council) for the three-month period ended June 30, 2013 as set out in the accompanying unaudited quarterly financial statements. Those statements are disclosed in accordance with the requirements of section 131.1 of the Financial Administration Act and are prepared in accordance with Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

Management is responsible for the information presented in the unaudited quarterly financial statements and in this narrative discussion, both of which have been reviewed and endorsed by the Audit and Finance Committee of the Council's Board of Directors. In assessing what information is to be provided in the narrative discussion, management applies the materiality principle as guidance for disclosure. Management considers information material if it is probable that its omission or misstatement, judged in the surrounding circumstances, would influence the decisions of the primary user of this information, the Government of Canada.

This discussion contains "forward-looking statements" that reflect management's expectations regarding the Council's results of operations. These statements are not facts but only estimates based upon information and assumptions that are currently available to, or made by, management and which are subject to a number of risks and uncertainties. These and other factors may cause actual results to differ substantially from the expectations stated or implied in the forward-looking statements.

The Financial Administration Act does not require the Council to file a Corporate Plan with the Government of Canada. Therefore, neither this narrative discussion nor the unaudited quarterly financial statements disclose a comparison of results against the Council's Corporate Plan. As required by PSAS, the unaudited quarterly financial statements do provide comparisons to the Council's approved annual budget for the year.

## HIGHLIGHTS

In June, the Canada Council launched its new web site canadacouncil.ca which provides a more vibrant, accessible and client-friendly interface. It also launched its National and International Market Access Strategy, with a module on the web site that brings grants, services and a policy position together for the arts community.

### Net Results

| | Three months ended June 30 | | | |
|---|---|---|---|---|
| (in thousands of dollars) | 2013 | 2012 | $ change | % change |
| Revenue | 962 | 1,173 | (211) | 18.0% |
| Expenses | (77,501) | (111,793) | 34,292 | 30.7% |
| Government funding | 78,000 | 78,000 | | 0.0% |
| **Net results for the period** | **1,461** | **(32,620)** | **34,081** | (104.5%) |

### Overview of the First Quarter Net Results

Net results for the quarter were $1.5M, an increase of $34.1M over the first quarter of the previous fiscal year. This increase reflects the following changes in revenue and expenses which are also explained in more detail in the Financial Results section:

- Revenue for the first quarter was $0.2M lower compared to last year. This decrease is mainly due to the receipt of a one time revenue for this period last year of $0.4M from the Edith Webb Fund to purchase a violin. Other revenue was consistent with the prior year.
- Expenses in the quarter were lower than comparative period last year which is mostly due to timing in grant expenses.

The Council will continue to monitor its financial results with the aim of achieving the target projections set out in its original budget exercise.

## IMPORTANT CHANGES

### Programs

The revised Flying Squad program was approved by the Board of the Canada Council and will be publicly launched in September 2013. In June, the Council announced a new partnership with Arts Nova Scotia to support Aboriginal, culturally diverse and Deaf and disabled artists from that province.

### Operational Activities

- Annual Report

The Board of the Canada Council approved the 2012-13 Annual Report which featured a new approach, emphasizing performance measurement and drawing extensively from the Canadian Arts Data / Données sur les arts au Canada (CADAC), a multi-agency data base that collects information on organizations receiving operating funding. The report will be available in the fall once tabled at Parliament.

- Systems Modernization

The Council is currently undergoing significant changes to its suite of information systems, with a new Grant and Client Management System currently being developed and implemented. This initiative is progressing well with three programs being piloted in the fall and winter of 2013-14.

- Move to 150 Elgin Street

The Council's move to its new, cost-efficient, green building is proceeding according to schedule. A new telecommunications solution contract has been signed and the interior furnishings are being selected with the intention of recycling as much as possible the current furniture.

### Leadership and Governance

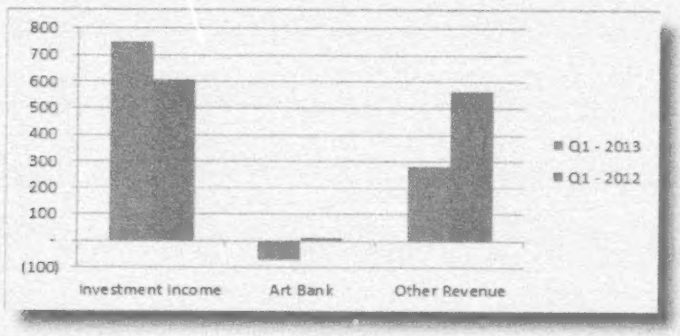
The Minister of Canadian Heritage and Official Languages announced the appointment of Ms. Beverley K. Foy to the Board of the Canada Council on June 6, 2013. Ms. Foy's bio can be found on the Council's website. On July 29, 2013, the re-appointment of Joseph L. Rotman as Chair, for a term of five years, was also announced.

The recruitment for the new Director of the Arts Disciplines Division is underway with an announcement expected later in summer 2013.

## FINANCIAL RESULTS

The following section provides further detail and explanation of financial results presented in the quarterly financial statements:

### Revenue




### Investment Income

- Net investment income was not materially different from last year and was aligned with the budget. The forecast for investment income is expected to be as per budget.

### Art Bank

- The major variance between this year-to-date's and last year-to-date's results for the Art Bank is due to the decrease in revenue by $43K. The Council has undertaken a full review of the Art Bank mandate. The outcome of this review will be known in the current fiscal year.

### Other Revenue

- The decrease of $0.3M compared to the same period last year is mainly due to the receipt of a one time revenue for this period last year of $0.4M from the Edith Webb Fund to purchase a violin.

### Expenses

| | Three months ended June 30 | | | |
|---|---|---|---|---|
| (in thousands of dollars) | 2013 | 2012 | $ change | % change |
| Grants | 68,522 | 103,257 | 34,735 | 33.6% |
| Program delivery costs | 4,605 | 4,391 | (214) | (4.9%) |
| Canadian Commission for UNESCO | 662 | 517 | (145) | (28.0%) |
| General administration | 3,712 | 3,628 | (84) | (2.3%) |
| **Net results for the period** | **77,501** | **111,793** | **34,292** | 30.7% |

Grant expenses are lower than the same period last year due to the timing of competition deadlines and approval of results by the Board which differ from the prior year.

No other major variances were noted in the expenses.

Grants and other expenses are forecasted to be aligned with the budget.

## Financial Assets

| (in thousands of dollars) | June 30 2013 | March 31 2013 | $ change |
|---|---|---|---|
| Cash and Cash equivalents | 24,350 | 197 | 24,153 |
| Accounts receivable | 1,526 | 3,488 | (1,962) |
| Derivatives | - | 5 | (5) |
| Portfolio investments | 287,604 | 285,141 | 2,463 |
| **Total** | **313,480** | **288,831** | **24,649** |

### Cash and Cash Equivalents

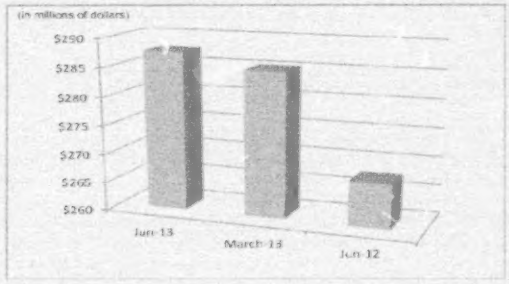
The increase of $24.2M in Cash Equivalents compared to year-end is primarily the result of the difference in the timing of the drawing down of Council's Parliamentary appropriation and the cash flow requirements of grant payments. This increase is also consistent with the increase in Grants payable under the Liabilities section as of June 30, 2013.

### Accounts Receivable

The decrease of $2.0M arises primarily from the receipt in the first quarter of $1.6M in investment income which was accrued at year-end.

### Portfolio Investments

The total market value of the portfolio as at June 30, 2013 was $287.6M of which $77.1M was externally restricted. This represents an increase of $2.5M since March 31, 2013 and $19.9M since June 30, 2012 as a results of positive returns.




The total fund generated an absolute return of 1.4% for the quarter which was higher than the benchmark return by 0.1%. The main contributors to the returns for that period were the performance of the Infrastructure and the Real Estate managers. During the quarter, the Global equities had very strong returns due to a more favorable market environment. Those results were partially offset by both the Canadian equities and DEX Universe Bond which posted negative returns for the same quarter.

Since January 1st, 2013, the total fund generated an absolute return of 5.7% which was higher than the benchmark return by 1.2%. The main contributors for this year-to-date return were the performance of the Global Equity, Hedge Funds and Infrastructure managers.

## Liabilities

| (in thousands of dollars) | June 30 2013 | March 31 2013 | $ change |
|---|---|---|---|
| Bank indebtedness | - | 1,347 | 1,347 |
| Grants payable | 50,733 | 26,984 | (23,749) |
| Accounts payable and accrued liabilities | 2,195 | 3,513 | 1,318 |
| Deferred revenues | 1,761 | 1,764 | 3 |
| Derivatives | - | 97 | 97 |
| Employee future benefits | 2,542 | 2,515 | (27) |
| Externally restricted contributions | 27,894 | 27,721 | (173) |
| **Total** | **85,125** | **63,941** | **(21,184)** |

### Grants payable

The increase of $23.8M in comparison to the value as at March 31, 2013 arises from multi-year grants accrued at the start of the year which had not been paid by the end of the three month period.

### Accounts payable and accrued liabilities

The decrease of $1.3M in comparison to the value as at March 31, 2013 is mainly due to a reduction of $2.0M in commercial invoices due to the timing of the payment schedule which was slightly offset by an increase of $0.6M in accrued salaries and benefits for this period also as a result of timing.

### Derivatives

The Council does not use derivatives to manage its exposure to foreign currency exchange risk on the non-Canadian dollar denominated portion of its investment portfolio as most of its current investment managers already have a currency strategy within their pooled fund to manage this risk. The last foreign currency forward contracts held by the Council settled in June 2013 which explain the nil value under derivatives both in the assets and liabilities sections at June 30, 2013.

## Non-Financial Assets

| (in thousands of dollars) | June 30 2013 | March 31 2013 | $ change |
|---|---|---|---|
| Tangible capital assets | 2,286 | 2,339 | (53) |
| Art Bank Inventory | 19,356 | 19,356 | - |
| Musical instruments | 1 | 1 | |
| Prepaid expenses | 291 | 306 | (15) |
| **Total** | 21,934 | 22,002 | (68) |

### Art Bank Inventory

The Council owns approximately 17,500 works of contemporary Canadian art within its Art Bank collection. At June 30, 2013 the appraised value of the Art Bank inventory was approximately $71M. The Council insures its Art Bank inventory for its estimated appraised value.

### Musical Instruments

The Council operates a Musical Instrument Bank and it currently owns a fine cello bow and eight quality musical instruments. In addition, the Council manages 11 instruments on loan, 9 of which are lent by anonymous donors. The appraised value of its musical instruments as at June 30, 2013 was $36.7M. These are included on the Statement of Financial Position at a nominal value. The Council insures the musical instruments at their appraised value.

## Cash Flow

| (in thousands of dollars) | Three months ended June 30 2013 | 2012 | $ change |
|---|---|---|---|
| **Beginning of period** | **(1,150)** | **(1,563)** | **413** |
| Cash from operating activities | 25,372 | 19,730 | 5,642 |
| Cash for capital assets | (176) | (135) | (41) |
| Cash from investing activities | 304 | (389) | 693 |
| Net Change | 25,500 | 19,206 | 6,294 |
| **Ending balance for the period** | **24,350** | **17,643** | **6,707** |

### Operating Transactions

The change in cash from operations of $ 5.6M is mostly accounted for by an increase of $34.1M in the surplus from operations for this period compared to last year. This was partially offset by a reduction of $29.0M in net change in other non-cash items, detailed in Note 10 to the quarterly financial statements.

### Investing Transactions

The transactions that took place in the portfolio during the quarter are the movements within th. Fixed income and Alternative asset classes. The Council's Investment Committee recommended the reduction of the allocation to bonds in favor of a short term money market pooled fund and the consolidation of its investment in alternatives into one pooled fund. There was no major variance from the same period last year even though this year's transactions, as shown in the Statement of Cash Flow in the unaudited quarterly financial statements, were much more significant due to a change in the manager structure in the Alternative asset class and the asset re-allocation in the Fixed Income asset class.

## RISK MANAGEMENT

### Corporate Risk

In line with good governance practices, the Council updates and revises its Corporate Risk Profile on an ongoing basis, identifying and including any changes in the Council's risk environment. In order to address the risks within the Council's corporate risk profile that are outside the Council's appetite for risk, effective risk mitigation strategies and action plans are developed, under the oversight of assigned members of executive management, to reduce the risk exposure to an acceptable and manageable level.

The Audit and Finance Committee endorsed the Risk Mitigation Strategies Plan presented by Executive management at its January 2013 meeting. Executive management is currently monitoring progress of the implementation of these mitigation strategies and will be reporting results to the Audit and Finance Committee on a regular basis.

### Financial Risk

The Council is exposed to a variety of financial risks mainly through its investment portfolio. The Council's investment portfolio is primarily exposed to price risk, interest rate risk and currency risk. The Investment Committee reviewed the Council's investment policy during the first quarter and recommended changes in the asset mix allocation which was approved by the Board. This policy sets out the long term investment objectives and guidelines under which the portfolio is to be invested. The new asset mix allocation is detailed in Note 3 to the unaudited quarterly financial statements.

## USE OF PARLIAMENTARY APPROPRIATION

The following information is intended to supplement that provided elsewhere in this discussion regarding the Council's use of its Parliamentary appropriation.

The Council receives its main funding through an appropriation voted by Parliament. The Council records the Parliamentary appropriation received in the period as revenue in the Statement of Operations. The Council submits a monthly cash flow analysis to the Department of Canadian Heritage to justify its monthly draw-down cash requirements. The cash-flow requirements may not necessarily match the timing of expenses reported in the Statement of Operations. The monthly drawdown is invested in a short-term pooled fund managed by a professional investment manager from which the Council draws its daily cash requirements.

The Parliamentary appropriation approved and received by the Council during the first quarter was as follows:

| | June 30 | |
|---|---|---|
| (in thousands of dollars) | 2013 | 2012 |
| Approved Annual Operating funding | | |
| Vote 10 - Operating costs | 180,261 | 181,761 |
| Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the three month period | (78,000) | (78,000) |
| Balance of operating funding to be received | 102,261 | 103,761 |

Canada Council for the Arts | Conseil des arts du Canada

Quarterly

# Financial Statements

Unaudited

These financial statements for the quarter ended June 30, 2013 have not been audited or reviewed by our Auditor

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## Management's Responsibility for Financial Reporting

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

August 30, 2013

Robert Sirman
Director and Chief Executive Officer

Pascale Legault, CPA, CA
Chief Financial Officer

## Statement of Financial Position

| (Unaudited)<br>(In thousands of dollars) | June 30<br>2013 | March 31<br>2013 |
|---|---|---|
| FINANCIAL ASSETS | | |
| Cash equivalents | $ 24,350 | $ 197 |
| Accounts receivable | 1,526 | 3,488 |
| Derivatives | - | 5 |
| Portfolio investments (Note 3) | 287,604 | 285,141 |
| Total financial assets | 313,480 | 288,831 |
| LIABILITIES | | |
| Bank indebtedness | - | 1,347 |
| Grants payable | 50,733 | 26,984 |
| Accounts payable and accrued liabilities | 2,195 | 3,513 |
| Deferred revenues | 1,761 | 1,764 |
| Derivatives | - | 97 |
| Employee future benefits | 2,542 | 2,515 |
| Deferred revenues - Externally restricted contributions (Note 5) | 27,894 | 27,721 |
| Total liabilities | 85,125 | 63,941 |
| NET FINANCIAL ASSETS | 228,355 | 224,890 |
| NON-FINANCIAL ASSETS | | |
| Tangible capital assets | 2,286 | 2,339 |
| Art Bank inventory | 19,356 | 19,356 |
| Musical instruments | 1 | 1 |
| Prepaid expenses | 291 | 306 |
| Total non-financial assets | 21,934 | 22,002 |
| ACCUMULATED SURPLUS (Note 6) | $ 250,289 | $ 246,892 |
| Accumulated surplus is comprised of: | | |
| Accumulated surplus from operations | 239,458 | 237,997 |
| Accumulated remeasurement gains | 10,831 | 8,895 |
| ACCUMULATED SURPLUS | $ 250,289 | $ 246,892 |

The accompanying notes and schedules form an integral part of the financial statements.

## Statement of Operations

(Unaudited)

(in thousands of dollars)

| | Yearly Budget | Three months ended June 30 | |
|---|---|---|---|
| | 2013 | 2013 | 2012 |
| Revenue | | | |
| Net investment income (Note 7) | $ 9,560 | $ 749 | $ 609 |
| Net Art Bank income (loss) (Note 8) | (244) | (71) | 1 |
| Other revenue | 1,586 | 284 | 563 |
| Total revenue | 10,902 | 962 | 1,173 |
| Expenses | | | |
| Programs | | | |
| Grants | 152,360 | 68,522 | 103,757 |
| Administration | 14,635 | 3,394 | 3,028 |
| Services | 6,555 | 1,211 | 1,363 |
| | 173,550 | 73,127 | 107,648 |
| Canadian Commission for UNESCO (Note 9) | 2,346 | 662 | 517 |
| General administration | 15,646 | 3,712 | 3,628 |
| Total expenses | 191,542 | 77,501 | 111,793 |
| Annual deficit from operations before parliamentary appropriations | (180,640) | (76,539) | (110,620) |
| Parliamentary appropriations | 180,661 | 78,000 | 78,000 |
| SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD | 21 | 1,461 | (32,620) |
| ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD | 237,997 | 237,997 | 232,006 |
| ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD | $ 238,018 | $ 239,458 | $ 199,386 |

## Statement of Change in Net Financial Assets

(Unaudited)

(in thousands of dollars)

| | Three months ended June 30 | |
|---|---|---|
| | 2013 | 2012 |
| SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD | $ 1,461 | $ (32,620) |
| Acquisition of tangible capital assets | (176) | (135) |
| Amortization of tangible capital assets | 229 | 244 |
| | 53 | 109 |
| Acquisition of prepaid expenses | (291) | (268) |
| Use of prepaid expenses | 306 | 273 |
| | 15 | 5 |
| Net remeasurement gains (losses) | 1,936 | (2,265) |
| INCREASE (DECREASE) IN NET FINANCIAL ASSETS | 3,465 | (34,771) |
| NET FINANCIAL ASSETS, BEGINNING OF PERIOD | 224,890 | 210,084 |
| NET FINANCIAL ASSETS, END OF PERIOD | $ 228,355 | 175,313 |

The accompanying notes and schedules form an integral part of the financial statements

## Statement of Remeasurement Gains and Losses

| (Unaudited) | Three months ended June 30 | |
|---|---|---|
| (in thousands of dollars) | 2013 | 2012 |
| ACCUMULATED REMEASUREMENT GAINS (LOSSES), BEGINNING OF PERIOD | $ 8,895 | $ (145) |
| Unrealized gains (losses) attributable to: | | |
| Derivatives | - | 144 |
| Portfolio investments | 1,835 | (2,366) |
| Amounts reclassified to the Statement of Operations: | | |
| Derivatives | 40 | (104) |
| Portfolio investments | 61 | 61 |
| NET MEASUREMENT GAINS (LOSSES) FOR THE PERIOD | 1,936 | (2,265) |
| ACCUMULATED REMEASUREMENT GAINS (LOSSES), END OF PERIOD | $ 10,831 | $ (2,410) |

## Statement of Cash Flow

| (Unaudited) | Three months ended June 30 | |
|---|---|---|
| (in thousands of dollars) | 2013 | 2012 |
| Operating Transactions | | |
| Surplus (deficit) from operations for the period | $ 1,761 | $ (32,620) |
| (Gains) losses from disposal of portfolio investments (Note 7) | (149) | 83 |
| Realized losses on change in derivatives fair value | (37) | (144) |
| Amortization of tangible capital assets | 229 | 244 |
| Increase in prepaid expenses | 15 | 5 |
| Increase in employee future benefits | 27 | 18 |
| Income transferred from Deferred revenues - Externally restricted contributions | | |
| To investment income (Note 5) | (564) | (868) |
| To other revenues (Note 5) | - | (363) |
| Net change in other non-cash items (Note 10) | 24,390 | 53,375 |
| Cash provided by operating activities | 25,672 | 19,730 |
| Capital Transactions | | |
| Cash used by capital activities | (176) | (135) |
| Investing Transactions | | |
| Acquisition of portfolio investments | (26,304) | (2,140) |
| Disposal of portfolio investments | 26,608 | 1,751 |
| Cash provided (used) by investing activities | 304 | (389) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 25,500 | 19,706 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | (1,150) | (1,563) |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | 24,350 | 17,643 |
| Represented by: | | |
| Cash equivalents | 24,350 | 18,661 |
| Bank indebtedness | - | (1,018) |
| | $ 24,350 | $ 17,643 |

The accompanying notes and schedules form an integral part of the financial statements.

# Notes to the Financial Statements
# For the period ended June 30, 2013

## (Unaudited)

## 1. AUTHORITY AND ACTIVITIES

The Canada Council for the Arts (the "Council"), established by the Canada Council Act in 1957 and subsequently amended in 2001 by Bill C-40 to the Canada Council for the Arts Act, is not an agent of Her Majesty and is deemed to be a registered charity for the purposes of the Income Tax Act. In accordance with section 85(1.1) of the Financial Administration Act, the Council is exempt from Divisions I to IV of Part X of this Act, except for subsection 105(2) and sections 113.1 and 119 of Division II, sections 131 to 148 of Division III and section 154.01 of Division IV. The Council is a Crown corporation whose objectives are to foster and promote the study and enjoyment of and the production of works in the arts.

The Council achieves it's objectives primarily through grant programs to professional Canadian artists and arts organizations. The Council incurs administration and services expenses in the delivery of programs. Program administration expenses represent the direct costs of program delivery. Program services expenses represent costs incurred for non-grant activities in fulfillment of the Council's mandate and costs associated with the adjudication of grants. General administration costs represent the costs related to corporate management, communications, human resources, information management, finance, accommodation and amortization.

The Canada Council for the Arts Act assigns the Council with the functions and duties for the Canadian Commission for UNESCO (the "Commission"). The Commission advises the Government of Canada on its relations with the United Nations Educational, Scientific and Cultural Organization (UNESCO). The Commission also fosters co-operation between Canadian organizations in civil society and UNESCO.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of accounting
These unaudited interim financial statements have been prepared in accordance with Public Sector Accounting Standards (PSAS) pursuant to the Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board.

### Basis of preparation
These interim financial statements are intended to provide an update on the latest complete set of audited annual financial statements for the year ended March 31, 2013. Accordingly, they should be read in conjunction with the audited annual financial statements. The interim financial statements are unaudited for all periods presented. The accounting policies used in the preparation of these interim condensed financial statements are consistent with those disclosed in the Council's last audited annual financial statements.

### Measurement uncertainty
The preparation of financial statements in accordance with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting period. Employee-related liabilities, the estimated useful lives of tangible capital assets and the Art Bank inventory, the residual and appraised value of the Art Bank inventory, and the fair value of financial instruments are the most significant items where estimates are used. Actual results could differ from those estimated.

### Budgeted figures
Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Board.

## 3. PORTFOLIO INVESTMENTS

| | Year-to-date June 30, 2013 | | | | | Year end March 31, 2013 | | |
|---|---|---|---|---|---|---|---|---|
| (in thousands of dollars) | Cost | Unrealized losses | Unrealized gains | Fair value | | Cost | Fair value | |
| | $ | $ | $ | $ | % | $ | $ | % |
| Canada Council Endowment and Special Funds | | | | | | | | |
| Pooled funds | | | | | | | | |
| Equity | 102,951 | - | 11,994 | 114,945 | 50.3 | 102,951 | 112,026 | 49.4 |
| Fixed income | 62,321 | 2,564 | - | 59,757 | 26.1 | 73,316 | 72,049 | 31.7 |
| Alternatives | 19,430 | - | 3,010 | 22,440 | 9.8 | 10,670 | 13,491 | 6.0 |
| Money market | 14,807 | - | 38 | 14,845 | 6.5 | 13,266 | 13,266 | 5.8 |
| Real estate | 8,516 | - | 1,175 | 9,691 | 4.2 | 8,336 | 9,349 | 4.1 |
| Infrastructure | 8,745 | 1,588 | - | 7,157 | 3.1 | 8,464 | 6,828 | 3.0 |
| | 216,770 | 4,152 | 16,217 | 228,835 | 100.0 | 217,003 | 227,009 | 100.0 |
| Killam Fund | | | | | | | | |
| Pooled funds | | | | | | | | |
| Equity | 26,311 | - | 3,066 | 29,377 | 50.0 | 26,312 | 28,631 | 49.3 |
| Fixed income | 15,817 | 665 | - | 15,152 | 25.8 | 18,607 | 18,268 | 31.4 |
| Alternatives | 4,998 | - | 767 | 5,765 | 9.8 | 2,718 | 3,436 | 5.9 |
| Money market | 3,679 | - | 10 | 3,689 | 6.3 | 3,198 | 3,198 | 5.5 |
| Real estate | 2,280 | - | 328 | 2,608 | 4.4 | 2,235 | 2,519 | 4.3 |
| Infrastructure | 2,644 | 466 | - | 2,178 | 3.7 | 2,580 | 2,080 | 3.6 |
| | 55,729 | 1,131 | 4,171 | 58,769 | 100.0 | 55,650 | 58,132 | 100.0 |
| Total investments | 272,499 | 5,283 | 20,388 | 287,604 | | 272,653 | 285,141 | |

Unrealized gains/losses on investments are primarily due to the timing of the market prices, foreign exchange movements, or the early years in the business cycle for some investments. Annually, the Council assesses each of its investment instruments against specific criteria to determine whether there is objective evidence that the adjusted cost may not be recovered and is therefore impaired. The Council does not consider these investments to be other-than-temporarily impaired.

The Council manages two separate portfolios, the Canada Council Endowment and Special Funds and the Killam Fund. The Killam will requested that their donation be invested separately. Apart from the Killam Fund, all other externally restricted contributions are consolidated into the Canada Council Endowment and Special Funds and represent 8.0% (March 31, 2013 - 8.0%) of that Fund with a total fair value of $18,284,000 (March 31, 2013 - $18,138,000). The total fair value of the externally restricted investment including the Killam Fund is $77,053,000 (March 31, 2013 - $76,270,000).

The long-term objectives of the Canada Council Endowment and Special Funds and the Killam Fund are to generate long-term real returns to supplement the costs of administering the various programs, while maintaining the purchasing power of the endowed capital.

The Council invests in units of equity, fixed income and alternative pooled funds and in limited partnership units of four real estate funds and two infrastructure funds. The permitted and prohibited investments, the asset mix as well as some maximum holding quantity restrictions are governed by a Board approved investment policy to mitigate concentration risk. All of the investments are managed by professional investment managers.

The Council manages its portfolio to the following benchmarks adopted by the Board in June 2013. The benchmarks allow asset class allocations to vary between a minimum and a maximum.

| Asset Classes | Actual Market Value | Minimum | Benchmark | Maximum |
|---|---|---|---|---|
| Canadian equities | 10% | 5% | 10% | 15% |
| Global equities | 41% | 35% | 40% | 45% |
| Fixed income | 26% | 15% | 25% | 30% |
| Alternatives | 10% | 5% | 10% | 15% |
| Real estate | 4% | 0% | 7.5% | 10% |
| Infrastructure | 3% | 0% | 7.5% | 10% |
| Money market | 6% | 0% | 0% | 15% |

The money market asset class includes short term pooled funds used for future investments in alternatives and capital commitments in limited partnership units of real estate and infrastructure funds. These funds had a balance of $18,534,000 (March 31, 2013 - $16,464,000).

Investments in the equity pooled funds are comprised of units of three pooled funds, one Canadian fund and two funds that are invested in the global equity markets. The Canadian equities are measured against the returns of the Standard and Poor's Toronto Stock exchange Index. The global equities are measured against the returns of the Morgan Stanley Capital International World Hedge Index. Investments in the fixed income pooled fund are comprised of Canadian Government and corporate bonds with a minimum credit quality of BBB or equivalent rated by a recognized bond rating agency. The fixed income fund is intended to replicate the returns of the DEX Universe Bond Index. Investments in the alternative pooled funds are comprised of units of one hedge fund with diversified positions across global asset classes. This investment is measured against the returns of the Scotia Capital 91-day T-bill plus 20%. The assets included in the real estate funds are commercial real estate properties in Canada and the United States. These investments are measured against the returns of the Investment Property Databank for the Canadian managers and the National Council of Real Estate Investment Fiduciaries (NCREIF) for the US manager. The infrastructure funds include two portfolios of diversified infrastructure investments. These investments are measured against the Consumer Price Index plus 4.5%.

## 4. FINANCIAL RISKS AND FAIR VALUE

The measurement categories of the Council's financial instruments, as well as their carrying amounts and fair values are as follows:

| (in thousands of dollars) | | Year-to-date June 30, 2013 | Year-end March 31, 2013 |
|---|---|---|---|
| Financial assets and liabilities and classifications | Measurement categories | Carrying amount and fair value ($) | Carrying amount and fair value ($) |
| Cash equivalents | Fair value | 24,350 | 197 |
| Accounts receivable | Amortized cost | 1,526 | 3,488 |
| Derivatives net | Fair value | - | (92) |
| Portfolio investments | Fair value | 287,604 | 285,141 |
| Bank indebtedness | Fair value | - | 1,347 |
| Grants payable | Amortized cost | 50,733 | 26,984 |
| Accounts payable and accrued liabilities | Amortized cost | 2,195 | 3,513 |

1. The detailed fair value for the investments is listed in Note 3.

a) Establishing fair value

The carrying value of accounts receivable, grants payable and accounts payable and accrued liabilities approximates their fair values due to their short-term maturity.

The fair value of derivative instruments is calculated using the current market spot and the forward exchange rates at the end of the period.

The fair values of the investments are determined as follows:

- Pooled fund investments are valued at the unit values supplied by the pooled fund managers, which represent the Council's proportionate share of the underlying net assets at fair values, determined using closing market prices.
- The Alternatives is a pooled fund investment which is valued at the unit values supplied by the pooled fund manager. The fund manager manages multiple funds strategies within the fund and determines the unit's fair value using the closing market prices for some strategies when available or using valuation model with non-observable data for other strategies.
- Real estate investment values are supplied by the fund managers using independently audited appraisals which are based on a valuation model with non-observable data. The independently audited appraisals are obtained annually.
- Infrastructure investment values are supplied by the fund managers using internally determined appraisals. The appraisals are based on a valuation model with non-observable data.

b) Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the Statement of Financial Position, classified using the fair value hierarchy described above:

## Financial assets at fair value

| (in thousands of dollars) | Year-to-date June 30, 2013 | | | | Year-end March 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Cash equivalents | 740 | 23,610 | - | 24,350 | - | 197 | - | 197 |
| Derivatives | - | - | - | - | 5 | - | - | 5 |
| | 740 | 23,610 | - | 24,350 | 5 | 197 | - | 202 |
| **Portfolio Investments** | | | | | | | | |
| Canada Council Endowment and Special Funds | | | | | | | | |
| Pooled Funds | | | | | | | | |
| Equity | - | 114,945 | - | 114,945 | - | 112,026 | - | 112,026 |
| Fixed Income | - | 59,757 | - | 59,757 | - | 72,049 | - | 72,049 |
| Alternatives | - | - | 22,440 | 22,440 | - | - | 13,491 | 13,491 |
| Money Market | - | 14,845 | - | 14,845 | - | 13,266 | - | 13,266 |
| Real Estate | - | - | 9,691 | 9,691 | - | - | 9,349 | 9,349 |
| Infrastructure | - | - | 7,157 | 7,157 | - | - | 6,828 | 6,828 |
| Killam Fund | | | | | | | | |
| Pooled Funds | | | | | | | | |
| Equity | - | 29,377 | - | 29,377 | - | 28,631 | - | 28,631 |
| Fixed Income | - | 15,152 | - | 15,152 | - | 18,268 | - | 18,268 |
| Alternatives | - | - | 5,765 | 5,765 | - | - | 3,436 | 3,436 |
| Money Market | - | 3,689 | - | 3,689 | - | 3,198 | - | 3,198 |
| Real Estate | - | - | 2,608 | 2,608 | - | - | 2,519 | 2,519 |
| Infrastructure | - | - | 2,178 | 2,178 | - | - | 2,080 | 2,080 |
| | - | 237,765 | 49,839 | 287,604 | - | 247,438 | 37,703 | 285,141 |
| Total | 740 | 261,375 | 49,839 | 311,954 | 5 | 247,635 | 37,703 | 285,343 |

## Financial liabilities at fair value

| (in thousands of dollars) | Year-to-date June 30, 2013 | | | | Year-end March 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Bank indebtedness | - | - | - | - | 1,347 | - | - | 1,347 |
| Derivatives | - | - | - | - | 97 | - | - | 97 |
| Total | - | - | - | - | 1,444 | - | - | 1,444 |

## 5. DEFERRED REVENUES - EXTERNALLY RESTRICTED CONTRIBUTIONS

The deferred revenues from externally restricted contributions consist of accumulated income received which has been deferred until the resources have been used for the purpose or purposes specified by the endowment. The restricted endowment principal of $37,569,000 is required to be maintained intact and is reported under accumulated surplus from operations (see Note 6).

| (in thousands of dollars) | Year-to-date June 30, 2013 | Year-end March 31, 2013 |
|---|---|---|
| Balance, beginning of period | $ 27,721 | $ 23,594 |
| Transferred from (to) investment income (Note 7) | | |
| Net investment income | 36 | 3,696 |
| Use of funds | (600) | (2,452) |
| | (564) | 1,244 |
| Transfer to other revenues | - | (363) |
| Unrealized gains on portfolio investment | 697 | 3,551 |
| Unrealized losses on derivatives | - | (15) |
| Reclassified to statement of operations - portfolio | 25 | (250) |
| Reclassified to statement of operations - derivatives | 15 | (40) |
| Balance at end of period | $ 27,894 | $ 27,721 |

The unrealized gains and losses on portfolio investment and derivatives are related to the change in fair value of those assets from the previous period.

## 6. ACCUMULATED SURPLUS

| (in thousands of dollars) | Year-to-date June 30, 2013 | | Year-end March 31, 2013 | |
|---|---|---|---|---|
| Accumulated surplus from operations | | | | |
| Endowment - Original contribution | | $ 50,000 | | $ 50,000 |
| Endowment principal – Externally restricted contributions | | 37,569 | | 37,569 |
| Reserve for excess investment income | | | | |
| Balance at beginning of the period | 123,445 | | 118,445 | |
| Appropriated from the accumulated surplus during the period | - | | 5,000 | |
| Balance at end of the period | | 123,445 | | 123,445 |
| Surplus | | | | |
| Balance at beginning of the period | 26,983 | | 25,992 | |
| Appropriated to the reserve for excess investment income during the period | - | | (5,000) | |
| Surplus for the period | 1,461 | | 5,991 | |
| Balance at end of the period | | 28,444 | | 26,983 |
| Total accumulated surplus from operations | | 239,458 | | 237,997 |
| Accumulated remeasurement gains (losses) | | | | |
| Balance at beginning of the period | 8,895 | | (145) | |
| Change in fair value | 1,936 | | 9,040 | |
| Balance at end of the period | | 10,831 | | 8,895 |
| Balance of accumulated surplus at end of period | | $ 250,289 | | $ 246,892 |

## 7. NET INVESTMENT INCOME

| (in thousands of dollars) | Three months ended June 30 2013 | 2012 |
|---|---|---|
| Gains (losses) from disposal of portfolio investments | $ 149 | $ (83) |
| Income transferred from deferred revenues - | | |
| Externally restricted contributions (Note 5) | 564 | 868 |
| Net losses on derivatives | (300) | (726) |
| Interest and dividend income | 700 | 398 |
| Investment portfolio management costs | (364) | (348) |
| | $ 749 | $ 609 |

## 8. NET ART BANK INCOME (LOSS)

| (in thousands of dollars) | Three months ended June 30 2013 | 2012 |
|---|---|---|
| Rental revenue | $ 342 | $ 415 |
| Other income | 43 | 13 |
| Administration expense | (452) | (420) |
| Amortization of other capital assets | (4) | (7) |
| | $ (71) | $ 1 |

## 9. CANADIAN COMMISSION FOR UNESCO

| (in thousands of dollars) | Three months ended June 30 2013 | 2012 |
|---|---|---|
| Program expenses | $ 291 | $ 206 |
| Administration expense | 371 | 311 |
| | $ 662 | $ 517 |

## 10. NET CHANGE IN OTHER NON CASH ITEMS

| (in thousands of dollars) | Three months ended June 30 2013 | 2012 |
|---|---|---|
| Decrease in accounts receivable | $ 1,962 | $ 1,512 |
| Increase in grants payable | 23,749 | 53,053 |
| Decrease in accounts payable and accrued liabilities | (1,318) | (1,109) |
| Decrease in deferred revenues | (3) | (81) |
| Net change | $ 24,390 | $ 53,375 |

## 11. RELATED PARTY TRANSACTIONS

The Council is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Council enters into transactions with related parties in the normal course of business on normal trade terms applicable to all individuals and enterprises, and these transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.